

UNITED STATES MARINE CORPS
Financial Management School
Marine Corps Combat Service Support Schools
PSC Box 20041
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AFC 0104
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STUDENT OUTLINE

AUDIT WITHHOLDINGS

TERMINAL LEARNING OBJECTIVES:

(1) Given deductions and/or collections of pay computations, source documents, calculator, and the reference, audit deductions and collections of pay to ensure accuracy and completeness in accordance with DODFMR, Vol. 7A (3432.02.20)

ENABLING LEARNING OBJECTIVES:

(1) Given a scenario reflecting member's income tax withholdings computation, a calculator, and the references, audit the withholdings for accuracy prior to submission to the certifying officer in accordance with the DODFMR Vol. 7. (3432.02.20a)

(2) Given a scenario reflecting member's Social Security and Medicare Tax withholdings computations, a calculator, and the references, audit the withholding for accuracy prior to submission to the certifying officer in accordance with the DODFMR, Vol. 7. (3432. 02. 20b)

1. RATE OF WITHHOLDING:

a. General knowledge: Federal and state withholding is in accordance with Treasury Department Circular E (reference(cf) and Treasury Department regulations governing State income tax withholding as implemented in Service directives.

b. Additional Federal and State Withholding Tax: A member may authorize an additional amount to be withheld monthly to meet the income tax needs while entitled to combat zone tax exclusion or for other reasons.

c. State and Local Tax requirement: The state in which a member claims legal residence may tax compensation and other income regardless of the member's location.

d. Legal Residence: Each member must designate a legal residence, and report any changes of legal residence. A member's legal resident does not change because of change of duty station.

e. Withholding: Compensation for military service which is subject to the Federal taxation is also subject to the mandatory withholding of income taxes on behalf of those states (including the District of Columbia) which have entered into agreement for the purpose of such withholding with the Secretary of the Treasury.

1. The following conditions can cause improper monetary values reflects I the tax field of the MMPA:

a. Untimely Accession of a Central Record: This problem is caused by late accession of the MMPA into the central record. The accession occurs beyond the timespan compute capabilities of the MCTFS.

b. Inadvertent Deactivation of the central Record: This condition is infrequent but occurs whenever a separation entry is erroneously reported and processed.

c. Separation and Reentry within the Same Calendar Year: Existing logic will determine if an IRS Form W-2 has or has not been issued. If issued, new tax account data will begin on the date of reentry. If not issued, the accession logic will cause prior tax data to be carried forward to the new period of service.

1. To ensure accuracy of the audit the following should be done:

a. Ensure all source documents are attached.

b. In cases where the taxes need to be fixed ensure there is a substantiating document from the Commanding Officer of the Finance Officer authorizing you to do the adjustments as needed.

2. Pretty much just as a clerk would work it up, the auditor must pretty much do the same thing in order to assure it's accuracy.

- a. Audit the base pay to ensure it is correct, because if the base pay is not correct then the deductions are going to be off.
- b. Audit all taxable income to ensure that it is also correct, because the same as base pay if it's wrong than the deductions would be as well.
- c. Once it has been determined that A and B are correct you need to work up the taxes based on the your calculations.
- d. The taxes should be worked according to the way Treasury Department Regulations Circular E (reference(cf) and Treasury Department regulations governing State Income taxes.
- e. Everything at this point should be accurate and any changes should be by a tode entry.
- f. The tode is audited and than signed off. You are now ready
turn everything in to the certifying officer.

3. Separation and Reentry within the same calendar year

1. General Knowledge: The Federal Insurance Contributions Act (reference(ci) requires the withholding of tax from employees covered by the Social Security Act and the payment of employer's tax by federal agencies.

2. Taxable wages: The following wages are subject to FICA withholding.

- a. Basic Pay (excluding reduction for education benefits under the Montgomery G.I.Bill.

- b. Active duty compensation.

- c. Inactive duty compensation(This applies to inactive duty training performed after December 1987)

- d. Taxable amounts earned but unpaid at the date of death (subject to the maximum earnings tax) if paid to the

beneficiary during the same calendar year on which member's death occurs.

f. Basic pay or compensation earned when absence is because of injury, sickness, or hospitalization.

3. Percentage and maximum FICA taxed:

a. FICA is taxed at a percentage rate of 7.65% of taxable income for FICA. (Social Security is 6.20% and Medicare is 1.45%)

b. There is no ceiling as to how much one pays into FICA.

4. To ensure accuracy of the audit the following:

a. Just like the federal and State withholding, ensure all source documents are attached.

b. In cases where the taxes need to be fixed ensure there is a substantiating document from the Commanding Officer or the Finance Officer authorizing you to do the adjustments as needed.

5. Just as a clerk would work it up you as the auditor would have to do the same thing to ensure it's accuracy.

PRACTICAL APPLICATION